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THE ESOTERIC MARX: RELATIVE SURPLUS VALUE, CAPITAL, FINANCE

ECONOFICTION CAPITAL, FINANCE, MARX, MARXISM, SURPLUS VALUE

Marx has assigned the financial instruments exclusively to the sphere of circulation and analysed their function separately from the functioning of the technologies or physical means of production, which preserve the past wealth and at the same time enable a future demand for goods produced. In Marx's case, when it comes to value (analogous to energy and matter), there seems to be a principle of conservation, whereby the growth of real accumulated wealth can never be greater than the profits produced and realised in industrial production in a given period (multiplied by the rate of added value discounted by the investment rate), so that any increase in the value of physical capital or constant capital in the form of financial instruments does not come to his attention in the first place or is considered purely fictitious wealth. (cf. Meister 2016: Kindle-Edition: 2702ff.) For Marx, the real growth of an economy can therefore never be greater than the industrially produced profit. But this can no longer apply to contemporary capital and the financial system and its financial instruments, because the assets themselves are financing means to set in motion and expand investments in the so-called real industry.

Marx' esoteric argument regarding the reproductive cycle of capital that the production of goods and services always creates a demand from investors for financial resources that serve to preserve, accumulate and increase added value, whereby financial resources are produced in the same process as the production of goods and services. Today, therefore, the production of goods must inevitably be linked to the physical production and accumulation of asset values.

With regard to the functioning of the financial system, we now ask the following question: what new types of financial assets must emerge today in order to safeguard and expand capitalist reproduction as a whole, and how can the variable relationship between asset markets and consumer goods markets create conditions to which new movements for social conflict respond? Marx sees in capital that the new types of financial assets used to accelerate capital accumulation must be distinguished from money. For Marx, the general formula of capital cannot simply be $G-G'$ – money that leads to more money – but there must first be a monetary investment that functions differently from money in the exchange of goods in order to generate real wealth. Marx of course sees that the added value is produced by wage labour, which in turn has the function of increasing the effective demand for the goods produced by the workers. Marx rarely sees, however, that the added value is preserved and accumulated by buying means of production that not only serve as means (constant capital), but that also function as assets, which in turn serve as a hedge against the danger that parts of the produced goods are not realized and therefore become bankrupt, or that the money created in production is only saved or hoarded. The purchase of production goods (constant capital) represents a partial solution to the problem of how wealth can be preserved and accumulated without hoarding money. The concept of constant capital is now also understood as a relatively liquid asset in so far as capitalist production must be financed and the resulting surplus reinvested in new means of production.

The production of financial instruments can definitely be understood as an alternative to holding or saving money by preserving and accumulating real wealth. For a financial investor this means that the purchase of financial assets as a version of the formula $G-W-G$ must be compared with the formula $G-G'$ – the former now understood as a strategy of hedging value. In the formula $G-W-G'$ there are two substitutes for W (commodity), namely the money capital invested in the labour force (W) and the money capital invested in the capital goods which, and this is the crux of the matter, act on the one hand as a means of production and on the other hand as more or less liquid securities used to generate new cash.

For Robert Meister (ibid.), the mode of relative value-added production immediately introduces the logic of the financial system into the mode of production, his analysis also being concerned, among other things, with examining the effects of the operations and methods of the financial system on the proper reproduction of the social relations between labor and capital. (Lee, Martin 2016: Kindle Edition 6801f.) Let's try a first attempt at explanation: The added value that is produced in a given production phase can (if it is not simply hoarded as money) in the next phase only be maintained and increased by an expanded reinvestment in means of production and raw materials on the one hand and on the other hand. Without propagation, there is no preservation of

capital. Capital also invests in labour when expanding production capacities, because it hopes for a spread between the labour of money (the contribution of workers to GDP) and the monetary value of labour (wages). There are however different arbitrage possibilities to increase profits for companies, especially if they operate with different technologies and different productivity, but these arbitrage possibilities are also eliminated in the course of the balancing movements to average profit rates, otherwise for a dominant company the maintenance and expansion of the extra profit would be endlessly possible, which would ultimately end in its monopoly position. There are two different arguments at Marx that play a role in his analysis and criticism of the general formula $G-W-G'$. With regard to absolute added value, the first argument is that the application of labour enables the production of added value created by the workers, to whom a lower proportion than the total value they produce is paid as a wage, with which they can buy the consumer goods they produce themselves.

In the case of relative value added, the argumentation is different: Marx comes closest to the problem of the representation of the relation between the production of goods and the production of assets in his analysis of relative value-added production in capital vol.1. When it comes to the financial system, relative value-added production is based on its first maxim, the law of the uniform price. This means that two identical commodity units should be sold at the same price regardless of the respective costs of the enterprises, whatever the forms of production are, in which raw materials are transformed into finished products with the help of machines and labor. However, the company is given a positive arbitrage opportunity with regard to its investment in means of production if it is able to produce more units of goods in a given working time than its competitors. The creation of arbitrage via more effective transformation of raw material (part of constant capital) is part of increasing productivity by investing in new machines (another part of constant capital). The extra value here is not generated by hiring new workers or by labour intensification, but by the fact that the finished product can be sold at a lower price (per unit) than the same competing product. This accumulation of wealth through relative value-added production is quite real and material in so far as it stems from arbitrage in relation to constant capital (and not from absolute value-added, which corresponds to an increase in working hours or a growing number of jobs). The esoteric Marx argument also remains related to the need for the final product to be realised on the market, which in turn remains dependent on the consumer goods sector and the financial sector (consumer credit), the latter influencing the former. Marx's concept of relative value-added production leads to questions of real accumulation, whereby in the last instance it is the logic of financialization that expresses itself in relative value-added production and finally leads to the general law of capitalist accumulation. This law describes the creation of an increased production capacity (of constant capital) with simultaneous growth of the surplus population, which, due to the use of labour-saving techniques, can no longer be introduced to wage labour at all,

Two arguments therefore play an important role in the presentation and criticism of the general formula of capital $G-W-G'$. In addition to absolute value-added production, there is also relative value-added production, whereby first and foremost the financialization of production goods and workers allows the capitalists to increase material output in production through investment in machines, raw materials, energy, software, etc., while simultaneously always trying to reduce wage costs and the number of workers. The realization problem that inevitably follows from this involves the question of how it is at all possible to update and monetarize the produced goods as prices and thus generate further monetary funds; Marx deals with the Problem in Capital Vol. 2, which is often understood as if it were only a question of the balance of reproductive processes in and between the two sectors of production and consumer goods. The potential possibility that goods will not be realized comes to light here and then follows that no more monetary funds can be created or realized in money (the non-realization is also inherent in the financial assets, unlike in money, whose secret lies in the fact that it does not have to be spent). What Marx really does not discuss here, however, is the relationship between market and liquidity, because Marx attributes the problem of liquidity to the preservation of the value of money.

The middle term of the formula $G-W-G$ cannot simply be understood as a commodity that is productively applied in the production process, but must also be understood as a hedged portfolio that is priced as capital. The hedge itself, which is a marketable contract, has no utility value other than its exchange value. It is quite understandable that with large corporations such as General Motors, the production goods are part of their own portfolio, which of course also contains bonds or options on the production goods. Randy Martin registers at this point a shift from $G-W-G$ to $G-D-G'$, where D stands for the derivative, which is now identical in essence to the productively consumed goods and also drives the self-movement of capital. (ibid.: 347) For example, by buying options on a commodity it needs for its production processes, a company can increase its own creditworthiness, which is impaired by the risk of rising commodity prices. At the same time, the operations of a number of other players are affected by the commodity's price index. Risks are transferred, duplicated and multiplied and moved to other areas.

Marx shows in Capital Vol. 3 that there is already a realisation problem for companies, among other things when they invest qua credit in means of production that lose value during the production period, so that the manufactured products can no longer be sold on the market at the historical average price and the credit can then no longer be serviced. (ibid.: 680ff.) This is a problem that indicates that the investment absolutely must be hedged. The realization problem differs from other financial instruments in that the assets here are related to the means of production produced and do not serve solely as financial vehicles or assets of accumulation. To the extent that these assets possess a utility value that goes beyond their pure liquidity, they are not purely financial products whose utility value consists solely in realizing a price in a differential-immanent movement that generates

returns on the financial markets. The non-realisation of the market price for an end product or its sale below the average price results for the company in a decline in monetary funds and a reduced possibility to use all raw materials and capacity/machinery to generate new, higher monetary funds.

What Marx could not know is simply that the realization of the produced goods can be hedged by manufacturing puts and calls on options related to the means of production and raw materials; they thus tend to at least preserve the value of the investment in machines and raw materials during the period in which they are transformed into end products. Marx could still know that the fabrication of options could intervene in the fluctuating market price of a finished product. The existence of a market for puts and calls – the continuous possibility to permanently price and monetize the option – today generates enough liquidity for the underlying market of production and consumer goods to tend to eliminate the risks for their realization. The value of products is now increasingly preserved and accumulated in the form of financial assets by trading the spread between the market value of the asset, if it remains liquid, and the liquidation value of the asset. In addition, a fully liquid asset is as good as cash and is then also an alternative to the value retention of money, whereby there are hardly any risks that the asset cannot be realised immediately at its market price. In order to finance an asset that is not fully liquid, a liquidity premium must then be paid by either executing a hedge or buying collateral that is more liquid than the asset itself. The liquidation value of the asset will again be the money you get when you buy the if the collateral pledged is sold, and the liquidity premium will reflect the extent to which the original value of the collateral exceeds the value of the financial asset used to hedge it.

So a company's capitalist portfolio consists not only of bonds and debt, but also of the puts and calls of the options used to hedge. Without the correct design of the price movement of the puts and calls, there can be no robust recycling of the bonds and debts. A call is understood here as the right to acquire a potentially infinite surplus, and a put is an instrument to limit the loss. Both are derivative means that indicate whether a company is worth investing in a new capital stock in order to increase its capital stock and its profit, whereby the capital stock is just one of the means of increasing profit, the complementary form of which today is the financial asset, which also shows that relative value-added production is only one way of exploiting spreads in a particular market. Without pricing out the calls and puts and trading them on the derivatives markets, it is not possible today to manage a well hedged portfolio consisting of debt and bonds, whereby the portfolio should have liquidity at all times. The G-W-G' formula therefore always describes W as a portfolio consisting of debt and capital stock as well as puts and calls. Unlike money, these are pure financial products and their relation can be fixed in a financial form that describes the parity of debt and capital stock in terms related to the parity of puts and calls. The investment in W must therefore fulfil the following equation according to Meister:

Stock + Put=Debt + Call. (Master 2016: Kindle-Edition: 3044)

This formula contains a simple identity: if you have a capital stock and a put that contains a downward hedge, then you can replicate a return on an investment that is equal to owning a call that fulfils the possibility of participating in a surplus, based on the capital stock plus the current value of a loan. You can now use puts or calls to get a fully hedged portfolio that in turn allows a return that is at least equal to the risk-free interest rate. The spiral G-W-G' thus contains a double arbitrage possibility, namely on the one hand the play with the spreads in the valuation of the machines and the manpower, provided that the wage can neither be invested nor insured, and on the other hand a fully hedged portfolio on the basis of the call put parity. The basis for hedging is the credit as well as the return on the investment. If this reflux of money, which is always related to the credit the company takes out, is the paradigm of the portfolio side of G-W-G' and it is also related to investments in wages, then the effects of the financial system on companies' production processes are more complicated than Marx has ever imagined.

The price of a hedged portfolio from the financial side of production would then be the counterpart to the price of goods from the pure production side. The possibility of hedging is exactly what preserves the accumulated wealth by preventing it from fluctuating outside a certain framework in a given period. A further distinction must be made between the price stability of goods and financial products (as vehicles of real capital accumulation). Even if the profits generated by the exploitation of the labour force fall, the returns on invested capital may increase as a result of a growing market for financial products.

Commodities have no liquidity, insofar as they do not embody any economically viable options. Therefore the wage worker cannot invest, he must spend his money entirely on consumption and therefore he must continuously go to the labour market in order to earn the money for his consumption. However, any commodity other than consumer goods has liquidity and can serve as a vehicle for preserving and accumulating capital. Financial products such as health insurance, pension funds and student loans are now part of a household's cost of living, but rather than being seen as an investment in human capital, they should be seen as a kind of tax paid on financial capital.

1 Relative value-added production explains the effects of capital resulting from technological innovation that increases productivity in a company. The relative more productive individual capital can sell the individual good cheaper than the competition due to the reduction in value and thus realise a larger part of the social value for itself. With the decrease in the price of food, the value of the commodity labour decreases, so that also the share of variable capital decreases compared to the constant part (increase of the organic composition of the capital), but this decrease also leads to the fact that the labour has to produce less value for its preservation, so that the share of added value in the total product increases again. However, this only applies to individual capital, and the compensatory effect only applies to total capital if the number of workers used productively

increases in absolute terms. This is the aspect of labour, but there is also the technological effect.

It was Hans-Dieter Bahr who noted in this context that in Chapter 12 and 13 of the second volume of Capital Marx makes an analytical splitting of the production time (of capital) into working time and functional time of the machinery. (Cf. Bahr 1983: 434) According to Bahr, the same can be said of the functional time of the machines as of the working time, which is to be reduced with the methods of relative value-added production per piece. Now the fixed capital or the machinery has its own functional times, which, insofar as they are bought for the company, must be reduced, such as the working time that goes into the individual product. And insofar as the functional time per product unit decreases – this can happen through increased economies of scale, innovation, rationalisation and automation, etc. – there is no reason why the machinery or today digital technology should be understood no less as a source of added value such as living labour, if the new products realize a sales price for the company which is higher than the purchase price for raw materials, means of production, wages, interest, etc., provided that this sales price is attributable to technologically induced rationalisation. As a result, individual capital can increase its share of total social production even if it succeeds in reducing its production times per piece by making the machine's functional time more effective – and not just by compressing working time – and thus reducing internal costs. A company achieves an extra profit over its competitors if it succeeds in selling its products, which have fallen in price per unit due to the application of new technologies, cheaper than those of other companies. Production costs per unit fall faster in particularly productive industries than in other industries due to the use of specific technological innovation. With the implementation of new technologies in an industry where extra profits disappear, the socially necessary and valid working and functional times become more compressed on a more general level; according to Marx, average profit rates stabilise on a new level, which are cut off again and again by new wave movements resulting from further technological innovations or disruptions.

However, this is an ideal process that implies that efficiency (minimum material input per unit of output) per se means economic efficiency (minimum cost per unit of output) and economic efficiency therefore means maximum profit. But this does not always have to be true from several points of view, because a) it can even be efficient for the individual capital to use inefficient techniques or even to sell inefficient products, b) the companies often make calculations in such a way that they determine average unit costs (costs at a given average level of output) to which they add an industry-standard surcharge in order to keep this price stable over longer periods, or adapt it to cyclical changes in demand, with the aim of achieving long-term profit rates at a constant level, and c) it also happens, of course, that in some companies there is virtually no "real added value" qua labour at all, but they still absorb/realise part of the total input of so-called abstract labour at the level of total capital, with the result that the internal productivity standard plays virtually no role.

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